

Message Text

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C O N F I D E N T I A L BONN 03389

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: BUNDESBANK OFFICIALS ON MONETARY ISSUES

1. SUMMARY. BUNDESBANK STAFF MEMBERS AT A RUNG JUST BELOW THE BOARD OF DIRECTORS PROJECT AN ATTITUDE OF CONTINUED OPTIMISM ON THE UPSWING OF THE GERMAN ECONOMY AND FORESEE LITTLE IN THE AREA OF MONETARY ADJUSTMENTS BY THE BUNDESBANK THAT SHOULD BE MADE IN THE NEAR FUTURE. HALF PERCENT REDUCTION IN REDISCOUNT RATE IS POSSIBLE IN NOT TOO DISTANT FUTURE BUT, AT LEAST IN BUNDESBANK, SUCH AN ADJUSTMENT IS NOT THOUGHT TO BE CRITICAL FROM AN ECONOMIC POINT OF VIEW, EITHER TO AID THE GERMAN DOMESTIC ECONOMY OR PARRY CAPITAL INFLOWS. THE STATUS OF NEW YORK CITY FINANCIAL PROBLEMS CONTINUE TO WORRY THE TOP PEOPLE IN THE BUNDESBANK AND IN BONN. END SUMMARY.

2. IN CONVERSATIONS WITH STAFF OFFICIALS IN THE CREDIT AND INTERNATIONAL DIVISIONS AT THE BUNDESBANK ON FRIDAY, A CLEARLY OPTIMISTIC ATTITUDE TOWARD AN UPSWING OF THE GERMAN ECONOMY--INCLUDING THE EXPORT SECTOR--WAS VERY MUCH EVIDENT. EXPRESSED WORRIES ABOUT THE FUTURE COURSE OF INFLATION AND

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CONTINUED HIGH UNEMPLOYMENT WERE OBVIOUSLY MENTIONED

DAMPENING ELEMENTS WHICH REDUCED SATISFACTION WITH THE STATE OF THE ECONOMY. THESE OFFICIALS WERE SPEAKING FROM WHAT THEY UNDERSTOOD TO HAVE BEEN THE THRUST OF THE LAST CENTRAL BANK COUNCIL MEETING (ATTENDED BY FINANCE MINISTER APEL) AND THE IMPRESSIONS HELD BY IRMLER AND TUENGELER. THEY FELT THAT, AS FAR AS MONETARY TOOLS AVAILABLE TO THE BUNDESBANK WAS CONCERNED, LITTLE CHANGE EITHER IN THE REDISCOUNT RATE OR IN MINIMUM RESERVES REQUIREMENT WAS NECESSARY.

3. AT THE LAST CENTRAL BANK COUNCIL MEETING (ON FEBRUARY 19) THERE APPARENTLY WAS SOME PRESSURE BY FINANCE MINISTER APEL TO REDUCE THE REDISCOUNT RATE TO THREE PERCENT FROM THE CURRENT THREE AND A HALF BUT EMMINGER SPOKE BLUNTLY THAT SUCH A REDUCTION WAS NOT JUSTIFIED AND WOULD HAVE LITTLE IMPACT ON THE MOVEMENT OF THE ECONOMY OR ON RETARDING POTENTIAL SPECULATIVE CAPITAL INFLOWS. FROM THOSE IN THE BUNDESBANK WHO WOULD VOICE AN OPINION ON THE SUBJECT, HOWEVER, THERE SEEMED TO BE A FEELING AS CONVEYED TO US THAT THE RATE WOULD BE LOWERED IN THE NOT TOO DISTANT FUTURE, ALTHOUGH, AS IS OFTEN HEARD, ONE CANNOT PREDICT WHAT DECISIONS WILL BE MADE BY THE LARGE CENTRAL BANK COUNCIL. THE BUNDESBANK REMAINS SATISFIED WITH THE MONEY SUPPLY. NO TIGHTENING OF MANDATORY RESERVES ARE ON THE HORIZON FOR, IN THE OPINION OF ONE ECONOMIST, "THE BUNDESBANK OF ALL INSTITUTIONS DOESN'T WANT TO SHOOT THE UPSWING IN THE BACK."

4. IN TWO SEPARATE DISCUSSIONS THE PROBLEMS OF NEW YORK CITY WERE NOTED AS BEING "WORRISOME" TO BOTH THE BUNDESBANK AND TO BONN AND, ACCORDING TO OUR STAFF CONTACTS, THE SUBJECT WAS RAISED ON THE EDGES OF THE LAST BANK COUNCIL MEETING. QUOTING ONE INDIVIDUAL, "THE GERMAN BANKING COMMUNITY AND THE BONN GOVERNMENT WANT TO BE REPEATEDLY TOLD BY THE US THAT THE FINANCIAL PROBLEMS OF NEW YORK CITY ARE NOT VIEWED BY WASHINGTON AS SOLELY NATIONAL MATTERS BUT OF FAR-CONFIDENTIAL

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REACHING INTERNATIONAL SIGNIFICANCE." RECENT PRESS REPORTS OF CERTAIN RENOWNED US BANKS BEING ON THE COMPTROLLER'S PROBLEM LIST ARE SEEN BY THE BUNDESBANK AS "TYPICAL FOR TODAY'S AMERICAN JOURNALIST" AND SEPARATE FROM NEW YORK CITY'S PRESENT PROBLEMS. HILLENBRAND

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